

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
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FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 8868

INFO AMEMBASSY TOKYO

AMCONSUL HONG KONG

C O N F I D E N T I A L SEOUL 0574

E.O. 11652: GDS

TAGS: ECON EGEN BENC BEXP KS

SUBJ: ECONOMIC OUTLOOK, KORI 3 AND 4

1. DURING MEETING WITH AMBASSADOR JANUARY 20, DPM NAM DUCK WOO EXPRESSED CONFIDENCE ON THE OUTLOOK FOR KOREA'S ECONOMY OVER THE NEXT FEW YEARS. WITHIN TWO TO THREE YEARS, FOLLOWING THE COMPLETION OF HEAVY INDUSTRY DEVELOPMENT, NAM EXPECTS KOREA TO SHOW GROWING TRADE SURPLUSES. NAM NOTED HOWEVER, THAT A MAJOR PROBLEM WILL BE THE PSYCHOLOGICAL ADJUSTMENT BY KOREANS (INCLUDING THE PRESIDENT) TO THE NEW CIRCUMSTANCES. IN ADDITION, AS THE ECONOMY BECOMES MORE COMPLEX, ECONOMIC MANAGEMENT WILL BECOME MORE DIFFICULT.

2. INFLATION AND MONEY SUPPLY CONTROL REMAIN NAM'S PRINCIPAL PROBLEMS AT THIS TIME. DUE TO PRICE INCREASES PERMITTED AT THE END OF 1977 AND DEREGULATION OF OTHERS, THE RATE OF INFLATION IN JANUARY WILL BE ABOUT TWO PERCENT, AN UNACCEPTABLE RATE. MEASURES UNDER CONSIDERATION TO REDUCE THE INFLATIONARY PRESSURES INCLUDE INCREASED IMPORT LIBERALIZATION "OF A SUBSTANTIAL NATURE" AND THE RESTRAINT OF WAGE INCREASES TO THE
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LEVEL OF PRODUCTIVITY INCREASES. NAM STATED HE WOULD "THREATEN" TO FREE ALL IMPORTS IF THE RATE OF INFLATION CANNOT BE REDUCED. (AT THE ECONOMIC MINISTERS NEWS CONFERENCE HELD JANUARY 21, NAM STATED THAT THE GOVERNMENT WILL EXPAND SHARPLY THE SUPPLY OF NECESSITIES, INCLUDING THE IMPORT OF CONSUMER GOODS IF NECESSARY, TO HOLD PRICE INCREASES BELOW 10 PERCENT. HE ALSO NOTED

THAT THE GOVERNMENT WOULD EMPLOY "EXTENSIVE POLICY MEASURES" TO RESTRAIN MONETARY GROWTH, WAGES AND PREVENT SPECULATIVE INVESTMENTS.)

3. TURNING TO KORI 3 AND 4, NAM CONFIRMED THAT THE BIDDING HAS NARROWED TO WESTINGHOUSE AND COMBUSTION ENGINEERING FOR THE NUCLEAR COMPONENTS. THE DECISION IS TO BE ANNOUNCED IN ABOUT A WEEK. NAM CONFIRMED THAT THE FRENCH WERE CLEARLY OUTBID. BECHTEL WOULD RECEIVE THE MANAGEMENT CONTRACT TO AVOID PROBLEMS SUCH AS OCCURRED WITH KORI 1. NAM NOTED THAT BOTH IN THIS CASE AND THAT OF THE TELECOMMUNICATIONS CONTRACT, INTERNATIONAL BIDDING HAD PROVED VERY SATISFACTORY AND THIS METHOD WOULD BE CONTINUED.
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